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SUBJECT: FRANCE: ENERGY SECTOR UPDATE

Ref: Paris 169 and previous

[1](#)1. This is another in a series of occasional updates on the French energy sector. Feedback is welcome to help us make this product as useful as possible for our inter-agency USG audience.

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[1](#)2. EDF's appetite for takeovers grows as profits double: On February 23, French utility Electricite de France (EDF) said that its net income doubled during 2005 and that the company was looking for further acquisitions to increase its foothold across Europe. Reaching well beyond its target of 2.6 billion euros for 2005, net income of 1.6 billion euros for 2004 jumped to 3.24 billion euros for 2005, as EDF benefited from higher electricity prices across Europe. In an interview with French business daily Les Echos, EDF's chief executive Pierre Gaddoneix said that the company was prepared to consider major European acquisitions, particularly in places, such as Spain and the Benelux countries, where EDF did not already have a foothold.

[1](#)3. Italians again eyeing Electrabel, this time via Suez: In another sign that France will be a major participant in the energy sector consolidation movement that was most recently seen in Eon's controversial bid for Spain's Endesa, French energy group Suez is reportedly a target of a hostile takeover bid from Italy's Enel. Enel is reportedly seeking a partner to jointly launch a bid for Suez and the company is believed to have contacted German energy group RWE. A bid for Suez could cost up to 38 billion euros, but Enel only has resources of 15 billion euros, so the need for a partner is clear. However, an Enel-RWE partnership would face the challenging task of sorting out how they would share the spoils of a Suez acquisition, in particular the Suez-controlled Belgian utility Electrabel. Enel recently publicly expressed its interest in Electrabel and did not rule out launching a bid for Suez in order to get a hold of it. Even more recently, Gaz de France and Suez are reportedly considering an alliance in a GOF-backed bid to fend off a hostile approach from Enel. According to reports on February 24, a possible GDF-Suez alliance, such as a share swap or joint venture, could be a prelude to an eventual merger.

Some industry observers have a sense of deja vu. The history of Suez's acquisition of Electrabel more than a decade ago may hold lessons for Enel. In the 90s, Italian business tycoon Carlo De Benedetti attempted one of Europe's first cross-border hostile raids, namely for Societe General de Belgique, which included control of Electrabel. The Franco-Belgian business establishment responded with fierce resistance, a precursor to the economic nationalism we are currently seeing in western Europe. The result was a rescue of Electrabel by Suez, which has since refocused from a French financial holding company to a European energy and water utility, including full ownership of Electrabel.

[1](#)4. French media reacts to new focus on U.S. "addition to oil": A weekly column of center-right daily Le Figaro, entitled "America Prepares the Post-Oil Era," commented that

President Bush's State of the Union address could be a major turning point, as far as the President's stance on new energies. "His speech is nothing less than an open declaration of war against OPEC... The geo-strategic consequences are immense: oil monarchies will lose much of their income... The U.S. car industry will be a big loser, so will the Anglo-American oil lobby in Washington... But there will be three other winners in this redistribution of the cards: Russia is the most obvious, China is the second winner and finally... the third winner is simply France, thanks to its electro-nuclear program. And Areva is the best positioned company, as well as the most effective, as proven by the numerous contracts it has been landing in the U.S." An op-ed in left-leaning paper Liberation commented on President Bush's new energy policy by saying "At first glance the President's stance was saluted... But upon looking more closely, it is clear that his policy is nothing more than a conjuring act. in which the method of how to reach the goal was ignored." and concludes that "American (And European) oil companies can continue to bank on healthy results for the next twenty to thirty years." Overall, the French seem to be skeptical, but content with the boost they perceive this gives to nuclear power, where France is clearly a world leader and French industry and scientific community stands to benefit greatly.

**15. Gaz de France faces French courts:** The French power group Gaz de France (GDF) went on trial February 20 accused of manslaughter. The trial follows an explosion, due to a crack in a main pipe, in Dijon in 1999, which killed 11 people. The company is accused of failing to maintain the pipe in line with regulations. In a separate case, a French court has annulled a ruling overturning a gross negligence finding against GDF, the national power group, which exposed one of its employees to asbestos. In June 2004, the Pau appeals court found that GDF had not been guilty of gross negligence by exposing one of its employees, Lucien Barbason, who was maintaining gas distribution points, to asbestos-contaminated areas. The recent court ruling said that GDF had been aware of the risks associated with asbestos since 1977 and that it had been aware, or should have been aware, of the danger to Mr. Barbason. The case will be re-examined by the Toulouse appeals court.

**16. Peugeot-Citroen unveils diesel-hybrid technology:** PSA Peugeot-Citroen is developing new fuel-efficient technology utilizing diesel and electricity. Based on automobile models, Peugeot 307 and Citron C4, PSA and the GDF Agency for Industrial Innovation will have four years to develop diesel hybrid vehicles ready for sale by 2010. At the present time, there are only two types of fuel-efficient vehicles: the diesel car, and the gasoline-hybrid. Although Toyota's gasoline-hybrid Prius is currently one of the world's least polluting models, PSA believes that utilizing diesel-electric technology would be far more efficient than Toyota's gas-electric technology. The diesel-hybrid system can start and drive using the HDi diesel engine, even when the high-voltage battery pack is totally empty. Other gas-hybrid vehicles would be completely immobilized in the same situation. Diesel-hybrid vehicles consume an average of 3.4 liters per 100 kilometers, with only 90 grams of carbon dioxide emitted per kilometer, saving almost 30% more than traditional diesel engines. Obstacles to adopting hybrid cars in Europe are the continuously rising prices of fuel, changing public opinion, and the fact that many consumers aren't ready to spend several thousands of euros to acquire a cleaner running car.

**17. Hummer sales contradict the French stereotype of themselves as low energy users:** According to findings by Capgemini, more than 50 percent of French consumers surveyed planned to buy/lease a used vehicle, while at least a quarter claimed that their primary vehicle was at least ten years old and would only consider purchasing another vehicle if its repair costs got too high. Furthermore, French companies such as Renault are launching modest, bare essential vehicles, like the Logan, built in Romania by subsidiary Dacia, with a starting price of around \$6,400. Yet, despite a competitive trend for thrifty automobiles, sales for the Hummer have been on the rise of late, according to Paul Chedid, a Hummer salesman in Paris. Despite the Hummer's enormous size, its price tag of as much as 200,000 euros, and its massive gasoline consumption in a country where gas costs at least \$5 a gallon, Chedid expects to sell at least 500 Hummers this year. What sells the Hummer is its distinctiveness and "wow factor." The first European customers in the 1990s were celebrity figures and included French rock icon Johnny Hallyday and fashion designer Karl Lagerfeld. Nowadays, customers include sports stars, corporate executives, and those lured by extravagance and Americana. Newer models will feature more economical diesel engines, which are popular in France.

**18. Who will succeed Jean Syrota at French energy regulator?:** The tenure for the president of the Energy Regulatory Commission in France will end March 24. There are at least

half a dozen potential successors with Andre-Claude Lacoste leading as the favorite. Lacoste is the current director of nuclear security and radioprotection, at the Nuclear Safety Authority (ASN), which is getting ready to transform itself into an independent administrative authority and redistribute its responsibilities. Some have speculated that if Lacoste moves to CRE, he might be replaced at ASN by Syrota. Syrota has an honorable record at the difficult task of setting up a regulatory body to enforce new competition rules as well as access to the electricity grid and gas pipeline network in the historically monopolistic electricity and natural gas markets. The sector has been busily preparing itself for the daunting prospect of full competition in all market segments beginning in July 2007. The other top potential candidate to replace Syrota is Philippe de Ladoucette, president of the French Coal Board. He reportedly has the support of Finance Minister Breton, but Ladoucette's ties to the president of EDF, Pierre Gadonneix, is perceived to kill his chances of getting the CRE presidency.

9. PSA and Renault adopt energy efficiency ratings: In January, French Ecology Minister Nelly Olin introduced an energy conservation rating system to encourage French consumers to buy cleaner, more efficient vehicles. The system is also designed to inform consumers about CO2 emissions, which contribute to the greenhouse effect. These ratings, similar to the ratings on energy efficient household appliances, will be mandatory for all new vehicles sold as of May 10, 2006, although French automotive companies PSA and Renault have already begun applying these ratings on current car sales. All French and foreign automobile companies support the energy efficiency ratings, which will also become mandatory for homes beginning July 1, 2006, for all real estate sales (and for all rentals beginning July 1, 2007). The GOF hopes to apply the rating to all products that consume energy. Recalling the GOF's 2004-2012 Climate Plan, where energy ratings were among the key topics, French Prime Minister Dominique de Villepin added that tax credits would be also offered and the reimbursable amount would be increased to encourage purchases of cleaner, more energy efficient products.

10. Total reports strong performance: Total's stock benefited from a 16% increase in profit during the fourth quarter of 2005 due to near record crude oil prices and outlasting competitors after suffering less damage after Hurricane Rita. Though sales in the fourth quarter increased by 18%, production fell by 6.5% or approximately 2.6 million barrels a day. Fourth quarter earnings slowed as production decreased due to the hurricane damage along the U.S. Gulf Coast. Total also recently announced its plans to sell its 24.5% share of Gaz de Strasbourg and its 16% share of Gaz de Bordeaux gas distribution networks. Total's primary objective is to supply gas to small and medium sized companies and industries rather than residential customers in order to gain at least 15% share of the French gas market by 2010. Furthermore, in May during the upcoming General Assembly, Total's administrative counsel will propose splitting each share of Total stock into four. Their intention to put forward this proposal was recently confirmed by the president of Total, Thierry Desmarest. He explained that if the shareholders adopt this proposition during the General Assembly, then a shareholder who held 10 shares would then hold 40 shares. If approved, the share split would take effect on May 18.

11. France and India hope to expand nuclear power cooperation (and sales): During the weekend of February 18-19, French President Jacques Chirac, along with several French businessmen and government officials met with India's Prime Minister, Manmohan Singh in New Delhi. The local media took Chirac's announcement of France's support for India's position for a place on the United Nations Security Council as an effort, at least in part, to emphasize his judgment that India is a responsible nuclear power. France reaffirmed its September 2005 agreement to help New Delhi acquire civilian nuclear power technology. France is eager to enter the nuclear power market in India, but a final agreement cannot be made until India clarifies its positions regarding the separation of civilian and military nuclear research and development as previously outlined.

12. Franco-German-Benelux talk of common electricity market: France, Germany and the Benelux countries have begun talks to set up a single electricity market in a move towards a unified EU energy policy (see Paris 762). So far, discussions have concentrated on the technical details of joining up national electricity grids. Although currently limited to these five countries, this new "electricity club" is reportedly open to new members.  
Hofmann